

## MARKET TRENDS

# PENINSULA OFFICE

### MARKET DRIVERS

**THE PENINSULA** office market reported an average direct asking lease rate of \$5.96/SF full service. This is a change from \$6.02/SF full service from 3Q2022 and \$6.08/SF from a year ago. Leasing activity stood at 207,118 SF for the quarter and 1,982,913 SF for the year. This quarter, Class A office accounted for 102,928 SF of the leasing activity, reflecting some of the tenants' willingness to pay for higher quality space. Class B and C offices reported leasing activity of 83,104 SF and 21,086 SF respectively.

**DIRECT OFFICE VACANCY** increased quarter-over-quarter by 60 basis points (bps) to 12.1%, while total vacancy rose by 90 bps quarter-over-quarter to 15.1%. This rise in total vacancy is primarily attributed to the increase in direct vacancy and a slight quarter-over-quarter increase of 30 bps in sublease vacancy. Sublease vacancy currently sits at 3%, but the lack of a dramatic increase in sublease vacancy indicates a relatively stable market.

**YEAR-TO-DATE** net absorption was positive 240,876 SF. This quarter, net absorption totaled negative 346,535 SF, the second quarter in which the Peninsula reported negative net absorption this year.

**OFFICE SALES** fell by 93.6% year-over-year from 1.5 million SF to 98,618 SF. The decline in investment sales activity shows hesitation in the market due to recession concerns, employee preference to work from home, and rising interest rates.

**THE SAN MATEO COUNTY** development pipeline remains strong totaling 2 million square feet of office space currently under construction. No projects were delivered this quarter, but several large projects are slated for delivery in 2023 such as 3150 S Delaware in San Mateo totaling 218,554 SF. 3150 S Delaware was 100% pre-leased to Roblox in early 2022. There will be limited new development planned beyond this coming year and if projects are approved, there will be substantial preleasing lender requirements.

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## Market Summary

|                     | 4Q22      | 3Q22    | 4Q21      | Annual Change |
|---------------------|-----------|---------|-----------|---------------|
| Direct Vacancy Rate | 12.1%     | 11.5%   | 11.8%     | 2.54%         |
| Availability Rate   | 19.8%     | 17.1%   | 13.7%     | 44.45%        |
| Asking Lease Rate   | \$5.96    | \$6.02  | \$6.08    | -1.97%        |
| Leased SF           | 207,118   | 330,025 | 737,028   | -71.90%       |
| Sold SF             | 98,618    | 629,611 | 1,532,237 | -93.56%       |
| Net Absorption      | (346,535) | 351,364 | 235,376   | N/A           |

207K SF  
LEASING ACTIVITY

-346K SF  
NET ABSORPTION

15.1%  
VACANCY RATE

\$5.96  
ASKING RENT (AVG)

0 SF  
NEW DELIVERIES

Year-Over-Year Trend

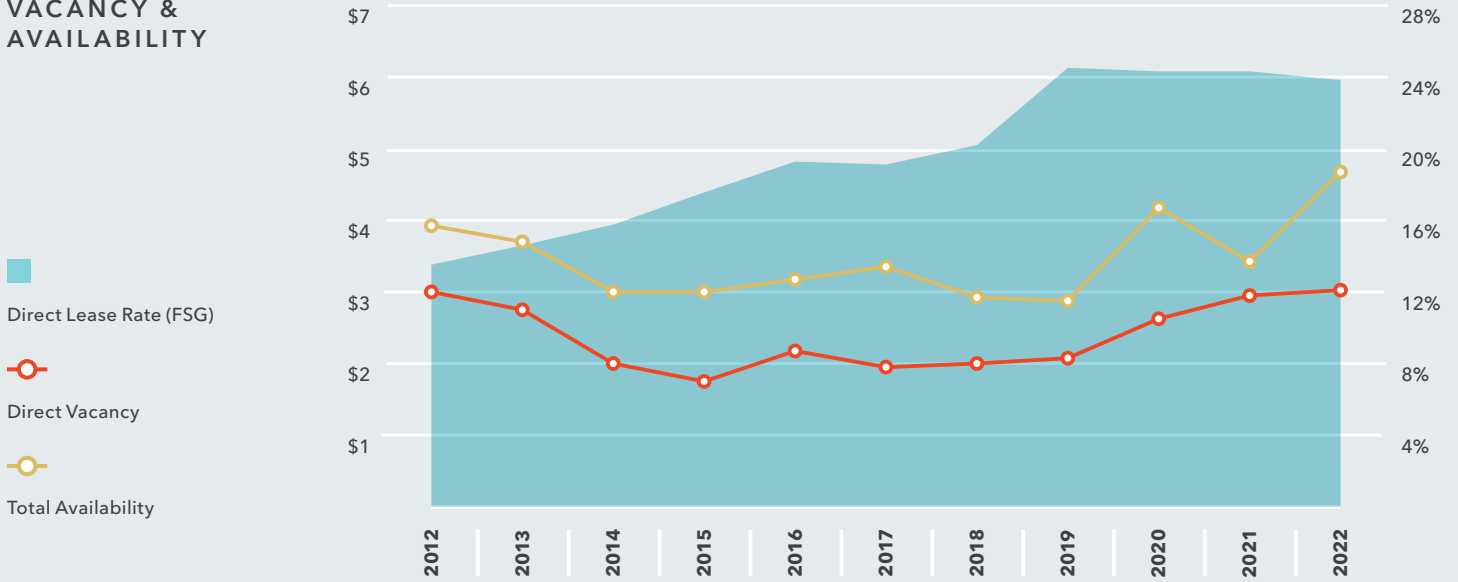
## Market Highlights

**2022 REPORTED** positive net absorption of 240,876 SF, despite this quarter's negative net absorption

**ECONOMIC** uncertainty and employee demand to work from home is leading to a decrease in demand for office space, resulting in more short-term leases

**SUBLEASE VACANCY** slightly rose by 30 bps to 3%

## LEASE RATE, VACANCY & AVAILABILITY

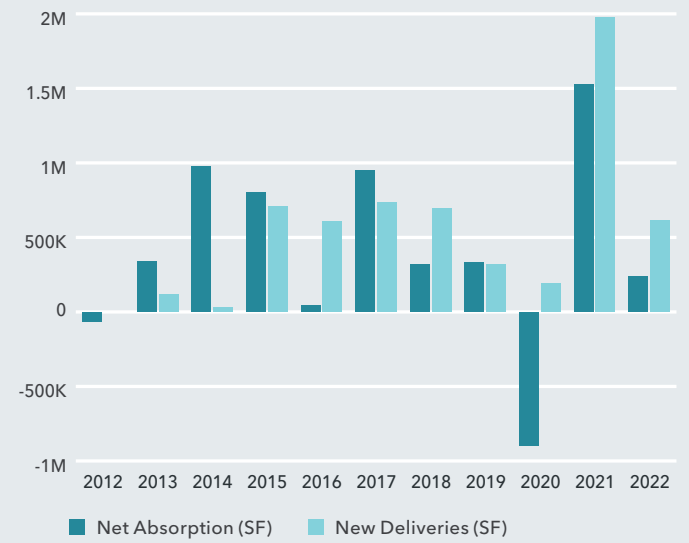


## BIGGEST SALE OF THE QUARTER

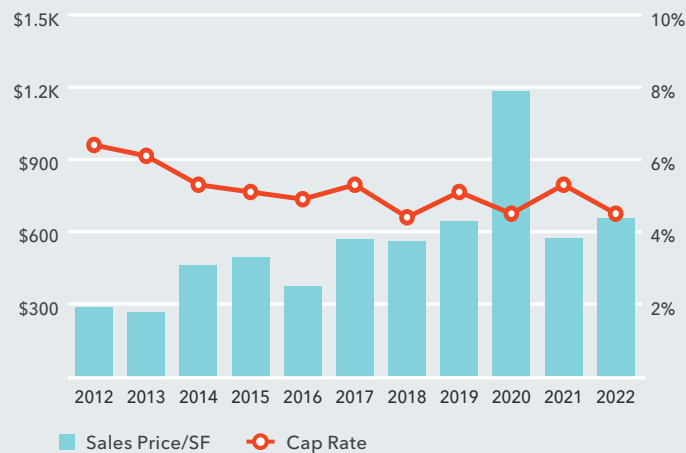
*990 Industrial Rd*



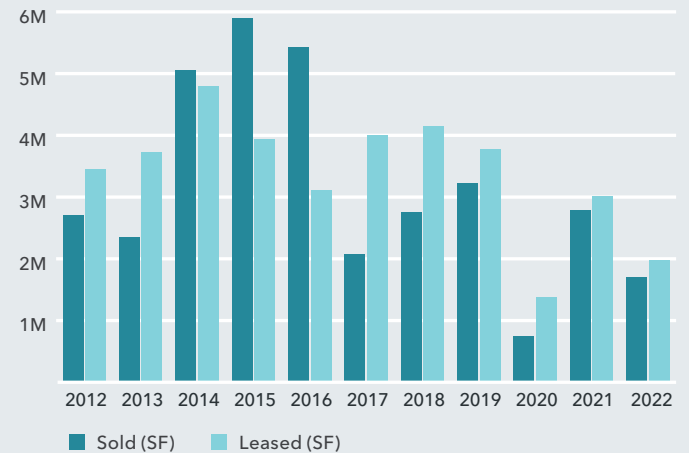
## NET ABSORPTION & NEW DELIVERIES



## AVERAGE SALES PRICE/SF & CAP RATE



## SALE VOLUME & LEASING ACTIVITY



## SUBMARKET STATISTICS

| Submarket                    | Total Inventory   | Under Construction | Direct Vacancy Rate | Total Vacancy Rate | Total Available Rate | 4Q22 Direct Net Absorption | YTD Direct Net Absorption | 4Q22 Total Leasing Activity | YTD Leasing Activity | Average Rental Rate (FS) |
|------------------------------|-------------------|--------------------|---------------------|--------------------|----------------------|----------------------------|---------------------------|-----------------------------|----------------------|--------------------------|
| <b>North County Totals</b>   | <b>8,412,235</b>  | <b>457,313</b>     | <b>10.3%</b>        | <b>10.9%</b>       | <b>17.8%</b>         | <b>3,882</b>               | <b>449,746</b>            | <b>100,750</b>              | <b>480,875</b>       | <b>\$4.46</b>            |
| Daly City                    | 412,908           |                    | 4.3%                | 4.3%               | 6.0%                 | (13,659)                   | (14,732)                  | 0                           | 0                    | \$2.92                   |
| Brisbane                     | 568,069           |                    | 4.7%                | 4.7%               | 15.3%                | 0                          | 45,963                    | 0                           | 79,213               | \$3.87                   |
| South San Francisco          | 2,135,534         |                    | 9.9%                | 11.0%              | 14.6%                | 32,608                     | 287,364                   | 79,337                      | 231,581              | \$3.49                   |
| San Bruno/Millbrae           | 1,597,555         |                    | 24.0%               | 24.1%              | 41.0%                | (3,128)                    | 2,635                     | 240                         | 31,430               | \$5.72                   |
| Burlingame                   | 3,698,169         | 457,313            | 6.1%                | 6.9%               | 11.3%                | (11,939)                   | 128,516                   | 21,173                      | 138,651              | \$4.73                   |
| <b>Central County Totals</b> | <b>13,324,542</b> | <b>504,126</b>     | <b>15.8%</b>        | <b>19.6%</b>       | <b>19.1%</b>         | <b>(240,018)</b>           | <b>126,368</b>            | <b>79,402</b>               | <b>1,155,578</b>     | <b>\$5.41</b>            |
| San Mateo                    | 8,164,323         | 504,126            | 14.7%               | 18.5%              | 20.2%                | (153,308)                  | 125,280                   | 61,056                      | 869,277              | \$5.43                   |
| Foster City                  | 2,208,631         |                    | 10.2%               | 10.8%              | 15.3%                | (16,838)                   | 153,687                   | 5,778                       | 53,721               | \$5.32                   |
| Redwood Shores               | 2,951,588         |                    | 23.1%               | 28.9%              | 18.8%                | (69,872)                   | (152,599)                 | 12,568                      | 232,580              | \$5.44                   |
| <b>South County Totals</b>   | <b>14,989,672</b> | <b>1,063,317</b>   | <b>9.7%</b>         | <b>13.5%</b>       | <b>21.5%</b>         | <b>(110,399)</b>           | <b>(335,238)</b>          | <b>26,966</b>               | <b>346,460</b>       | <b>\$7.29</b>            |
| Belmont/San Carlos           | 2,014,045         | 16,609             | 9.0%                | 16.6%              | 32.1%                | (7,554)                    | 71,843                    | 0                           | 25,187               | \$4.47                   |
| Redwood City                 | 6,092,294         | 1,012,000          | 11.6%               | 14.0%              | 19.4%                | (67,029)                   | (235,648)                 | 14,954                      | 163,192              | \$6.46                   |
| Menlo Park                   | 6,883,333         | 34,708             | 8.3%                | 12.1%              | 20.4%                | (35,816)                   | (171,433)                 | 12,012                      | 158,081              | \$8.86                   |
| <b>Peninsula Totals</b>      | <b>36,726,449</b> | <b>2,024,756</b>   | <b>12.1%</b>        | <b>15.1%</b>       | <b>19.8%</b>         | <b>(346,535)</b>           | <b>240,876</b>            | <b>207,118</b>              | <b>1,982,913</b>     | <b>\$5.96</b>            |
| Class A                      | 15,236,613        | 2,024,756          | 12.9%               | 17.3%              | 21.5%                | (180,030)                  | 412,673                   | 102,928                     | 1,237,461            | \$7.00                   |
| Class B                      | 16,232,335        |                    | 12.9%               | 15.3%              | 21.6%                | (153,730)                  | (85,982)                  | 83,104                      | 677,396              | \$5.55                   |
| Class C                      | 5,257,501         |                    | 7.1%                | 8.1%               | 9.4%                 | (12,775)                   | (85,815)                  | 21,086                      | 68,056               | \$4.18                   |

## ECONOMIC REVIEW

**IN OCTOBER OF 2022**, San Mateo County's unemployment rate was reported at 2.1%, remaining steady since June of 2022. However, it remains to be seen how the unemployment rate will be affected by the recent tech layoffs throughout the Bay Area.

**THROUGHOUT 2022**, inflation has been on the rise leading to several interest rate hikes. The rise in inflation continues to strain the supply chain causing the cost of raw materials used in construction to increase, further delaying delivery times and tenant improvement projects.

## NEAR-TERM OUTLOOK

**RECESSION CONCERNS** have been growing since the start of 2022 but reached new heights with several recent waves of layoffs—primarily in the tech industry. This is negatively affecting the demand for office space in the Peninsula, as uncertainty in the market grows. Tenants continue to “right-size” into smaller space and look for shorter term leases as they weigh the impact of work from home. Landlords are pivoting to shorter term leases to keep occupancy levels up with the hope upon lease expiration tenants will commit to a longer-term renewal.

## TOP SALE TRANSACTIONS 4Q 2022

| Property          | Submarket    | SF     | Sale Price   | \$/SF      | Buyer                    | Seller                         |
|-------------------|--------------|--------|--------------|------------|--------------------------|--------------------------------|
| 990 Industrial Rd | San Carlos   | 23,703 | \$22,000,000 | \$928.15   | Dewey Land Company, Inc. | Black Mountain Properties, LLC |
| 142 Stambaugh St  | Redwood City | 4,732  | \$5,750,000  | \$1,215.13 | RWC Dreams LLC           | R&M Properties                 |

## TOP LEASE TRANSACTIONS 4Q 2022

| Property          | Submarket           | SF     | Transaction Date | Landlord                        | Tenant                |
|-------------------|---------------------|--------|------------------|---------------------------------|-----------------------|
| 3050 S Delaware   | San Mateo           | 14,403 | October 2022     | Stockbridge Capital Group, LLC  | Forge Global Inc.     |
| 611 Gateway       | South San Francisco | 13,670 | November 2022    | Alexandria Real Estate Equities | Rigel Pharmaceuticals |
| 2460 Sand Hill Rd | Menlo Park          | 10,280 | October 2022     | Divco West Services, LLC        | Felicitis Ventures    |

## TOP UNDER CONSTRUCTION

| Property              | Address             | Submarket    | SF      | Owner       | Delivery |
|-----------------------|---------------------|--------------|---------|-------------|----------|
| Elco Yards            | 1601 El Camino Real | Redwood City | 592,000 | IQHQ        | Q4 2024  |
| Broadway Plaza        | 1401 Broadway       | Redwood City | 420,000 | Sobrato     | Q3 2025  |
| Bay Meadows Station 5 | 3150 S Delaware St  | San Mateo    | 218,554 | Stockbridge | Q2 2023  |

Data Source: KM Research, Costar, U.S Bureau of Labor Statistics



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The information in this report was composed by the Kidder Mathews Research Group.

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|-----------------------------|---|--|---------------------------------------|
| <b>COMMERCIAL BROKERAGE</b> | <b>\$10.9B</b><br>TRANSACTION VOLUME ANNUALLY | <b>49.7M</b><br>ANNUAL SALES SF        | <b>43.7M</b><br>ANNUAL LEASING SF     |
| <b>ASSET SERVICES</b>       | <b>52M</b><br>MANAGEMENT PORTFOLIO SF         | <b>875+</b><br>ASSETS UNDER MANAGEMENT | <b>270+</b><br>ASSET SERVICES CLIENTS |
| <b>VALUATION ADVISORY</b>   | <b>2,600+</b><br>ASSIGNMENTS ANNUALLY         | <b>48</b><br>TOTAL APPRAISERS          | <b>25</b><br>WITH MAI DESIGNATIONS    |

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